

**Shiawassee Area Transportation Agency  
Owosso, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2008**

Shiawassee Area Transportation Agency  
BOARD MEMBERS AND ADMINISTRATION

September 30, 2008

Board of Directors

Joe DeCaire	Caledonia Representative
Joe Sawyer	Corunna Representative
Charles Spring	Corunna Representative
Brian Boggs	Durand Representative
Cameron Canute	Durand Representative
Robert Bluedorn	Owosso Representative
Michael Cline	Owosso Representative
David Ray	Perry Representative
Mark Landers	Perry Representative
Ned Bromley	RESO Representative
Jill Young	RESO Representative

Administration

Lawrence Alpert	Executive Director
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Shiawassee Area Transportation Agency

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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Shiawassee Area Transportation Agency  
Owosso, Michigan

We have audited the accompanying financial statements of the Shiawassee Area Transportation Agency as of and for the years ended September 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shiawassee Area Transportation Agency as of September 30, 2008 and 2007, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2009, on our consideration of the Shiawassee Area Transportation Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shiawassee Area Transportation Agency's basic financial statements. The accompanying Other Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Shiawassee Area Transportation Agency. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

January 22, 2009

Shiawassee Area Transportation Agency  
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2008

The intent of the management's discussion and analysis is to provide highlights of the Agency's financial activities for the Fiscal Year ended September 30, 2008. Readers are encouraged to read this section in conjunction with the basic financial statements.

#### FINANCIAL HIGHLIGHTS

- **Assets:** The assets of the Agency exceed its liabilities by \$1,308,810 (net assets). Of this amount, \$254,802 (unrestricted net assets) may be used to meet the Agency's ongoing obligations to citizens and creditors. The total net assets decreased by \$252,360.
- **Unrestricted Net Assets:** At the end of the current fiscal year, the unrestricted net assets balance for the Agency was \$254,802, or approximately 22% of total expenses. At the end of the prior fiscal year, the unrestricted net assets balance for the Agency was \$334,660, which was approximately 34% of last year's total expenses.
- **Federal & State Funding of Capital Projects:** Shiawassee Area Transportation Agency is eligible for grants through the Michigan Department of Transportation and the U.S. Department of Transportation. During the fiscal year ending September 30, 2008, the Agency recognized \$313,997 less in capital grant revenue. This decrease was due to the fact that there were no buses purchased in this fiscal year as opposed to five purchased in the previous fiscal year.

#### REQUIRED FINANCIAL STATEMENTS

The financial statements report information of the Agency using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Agency's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Agency creditors (liabilities). It also provides the basis for evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency.

All of the fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Assets. This statement measures the success of the Agency's operations over the past year and can be used to determine whether the Agency has successfully recovered its costs through user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the report period.

#### FINANCIAL ANALYSIS OF SHIAWASSEE AREA TRANSPORTATION AGENCY

The Statement of Net Assets and the Statement of Activities provide the information to determine how the Agency did financially during 2007-8. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining the Agency's financial health.

#### NET ASSETS

The Agency's Comparative Condensed Statements of Net Assets and Revenue, Expenses and Changes in Fund Net Assets are presented in the following Tables.

Shiawassee Area Transportation Agency  
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2008

TABLE 1  
CONDENSED STATEMENT OF NET ASSETS

	Fiscal Year <u>2006-7</u>	Fiscal Year <u>2007-8</u>
Current Assets	\$ 386,198	\$ 312,054
Capital Assets, net	<u>1,216,529</u>	<u>1,054,008</u>
Total Assets	1,602,727	1,366,062
Current Liabilities	<u>41,538</u>	<u>57,252</u>
Net Assets		
- Invested in Capital Assets	1,216,529	1,054,008
- Unrestricted	<u>244,660</u>	<u>254,802</u>
Total Net Assets	<u>\$ 1,561,189</u>	<u>\$ 1,308,810</u>

TABLE 2  
CONDENSED STATEMENT OF REVENUE, EXPENSES,  
AND CHANGES IN FUND NET ASSETS

	Fiscal Year <u>2006-7</u>	Fiscal Year <u>2007-8</u>
Operating Revenues	\$ 268,198	\$ 265,861
Nonoperating Revenues	<u>974,156</u>	<u>656,098</u>
Total Revenues	1,242,354	921,959
Depreciation Expense	155,049	194,830
Other Operating Expenses	<u>871,360</u>	<u>979,508</u>
Total Expenses	<u>1,026,409</u>	<u>1,174,338</u>
Change in Net Assets	215,945	( 252,379 )
Beginning Net Assets	<u>1,345,244</u>	<u>1,561,189</u>
Ending Net Assets	<u>\$ 1,561,189</u>	<u>\$ 1,308,810</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets shows that the operating loss before intergovernmental (nonoperating) revenues was a factor in the Change in Net Assets. In addition, the depreciation expense of \$194,830 is a non-cash expense which represents the reduction in the value of the facility and buses. Due to the nature of the Agency's capital improvement plan, this cost is not considered in the day-to-day fiscal management process because of the capital grants available through State and Federal funding.

The Agency's operating revenues decreased approximately less than 1% over the prior year, which was not considered to be a material change. Operating expenses increased approximately 12%, mainly due to increased services, fuel expense and depreciation expense.

The Agency's nonoperating revenues decreased by approximately \$318,000, or about 48% over the prior year. This decrease is due primarily to the fact that there were no buses purchased in this fiscal year as opposed to five purchased in the previous fiscal year.

Shiawassee Area Transportation Agency  
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2008

#### CAPITAL ASSETS

The acquisition of new buses is generally funded by (80%) Federal sources and (20%) State match from the Michigan Department of Transportation. This allows for the Agency to maintain its fleet at an average life of five (5-6) years. This funding source also allows the Agency to use all of its operating revenues on daily services and not tie up those incomes with debt payments for equipment or the facility.

TABLE 3  
CAPITAL ASSETS

	Fiscal Year <u>2006-7</u>	Fiscal Year <u>2007-8</u>
Land	\$ 15,233	\$ 15,233
Buildings and improvements	838,428	838,428
Vehicles	903,353	903,353
Equipment	<u>47,933</u>	<u>80,242</u>
Subtotal	1,804,947	1,822,023
Less: Accumulated depreciation	<u>( 588,418 )</u>	<u>( 783,248 )</u>
Net property and equipment	<u>\$ 1,216,529</u>	<u>\$ 1,054,088</u>

Note C to the financial statements provides additional information regarding capital assets.

#### DEBT ADMINISTRATION

The Agency carries no long-term debt as any improvements to the fleet or facilities have all been secured by state or federal projects. This allows the Agency to avoid any debt other than current liabilities in the normal operation of the system.

#### ECONOMIC FACTORS

Many of the funds that subsidize the transportation operation are appropriated by both State and Federal legislation. These funds have remained relatively consistent; however, fluctuations in future funding levels may occur depending upon economic conditions at local, state, and federal levels.

#### CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Executive Director of Shiawassee Area Transportation Agency at 180 North Delaney Road, Owosso, MI 48867, (989)729-2687.



## **BASIC FINANCIAL STATEMENTS**

Shiawassee Area Transportation Agency

STATEMENT OF NET ASSETS

September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 156,583	\$ 260,379
Investments	101,366	1,012
Accounts receivable	12,258	22,691
Due from other governmental units	36,010	99,345
Inventory	5,762	2,696
Prepays	75	75
Total current assets	<u>312,054</u>	<u>386,198</u>
Noncurrent assets		
Capital assets not being depreciated	15,233	15,233
Capital assets, net of accumulated depreciation	<u>1,038,775</u>	<u>1,201,296</u>
Total noncurrent assets	<u>1,054,008</u>	<u>1,216,529</u>
TOTAL ASSETS	<u>1,366,062</u>	<u>1,602,727</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	36,609	28,755
Accrued payroll	15,221	12,488
Other accrued liabilities	<u>5,422</u>	<u>295</u>
TOTAL LIABILITIES	<u>57,252</u>	<u>41,538</u>
<b>NET ASSETS</b>		
Invested in capital assets	1,054,008	1,216,529
Unrestricted	<u>254,802</u>	<u>344,660</u>
TOTAL NET ASSETS	<u>\$ 1,308,810</u>	<u>\$ 1,561,189</u>

See accompanying notes to financial statements.

Shiawassee Area Transportation Agency

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Years Ended September 30, 2008 and 2007

	2008	2007
OPERATING REVENUES		
Sales and charges for services	\$ 265,861	\$ 268,198
OPERATING EXPENSES		
Administrative	330,591	295,956
Operations	749,964	650,670
Maintenance	93,783	79,783
TOTAL OPERATING EXPENSES	1,174,338	1,026,409
OPERATING (LOSS)	(908,477)	(758,211)
NONOPERATING REVENUES		
Intergovernmental		
Federal sources	157,030	141,412
State sources	392,904	388,341
Local sources	76,626	95,667
Gain from sale of capital assets	-	5,201
TOTAL NONOPERATING REVENUES	626,560	630,621
NET (LOSS) BEFORE CAPITAL GRANT REVENUE	(281,917)	(127,590)
CAPITAL GRANT REVENUE		
Federal sources	25,846	274,828
State sources	3,692	68,707
TOTAL CAPITAL GRANT REVENUE	29,538	343,535
CHANGE IN NET ASSETS	(252,379)	215,945
Net assets, beginning of year	1,561,189	1,345,244
Net assets, end of year	\$ 1,308,810	\$ 1,561,189

See accompanying notes to financial statements.

Shiawassee Area Transportation Agency

STATEMENT OF CASH FLOWS

Years Ended September 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 276,294	\$ 275,138
Cash paid to employees	(464,384)	(409,302)
Cash paid to suppliers	(502,476)	(439,893)
NET CASH (USED) BY OPERATING ACTIVITIES	(690,566)	(574,057)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State and Federal grants	613,269	461,851
Local contributions	76,626	77,029
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	689,895	538,880
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Sale of assets	-	5,201
State and Federal capital assistance	29,538	343,535
Capital acquisitions	(32,309)	(345,160)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(2,771)	3,576
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(101,366)	(1,012)
Maturities of investments	1,012	-
NET CASH (USED) BY INVESTING ACTIVITIES	(100,354)	(1,012)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR	(103,796)	(32,613)
Cash and cash equivalents, beginning of year	260,379	292,992
Cash and cash equivalents, end of year	\$ 156,583	\$ 260,379

Shiawassee Area Transportation Agency

STATEMENT OF CASH FLOWS - CONTINUED

Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING (LOSS) TO NET		
CASH (USED) BY OPERATING ACTIVITIES:		
Operating (loss)	\$ (908,477)	\$ (758,211)
Adjustments to reconcile operating (loss) to		
net cash (used) by operating activities		
Depreciation	194,830	155,049
Contributed services	-	18,638
Decrease in accounts receivable	10,433	6,940
(Increase) in inventory	(3,066)	-
Increase in accounts payable	7,854	3,253
Increase in accrued wages	8,155	4,965
(Decrease) in other accrued liabilities	(295)	(4,691)
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (690,566)</u>	<u>\$ (574,057)</u>

See accompanying notes to financial statements.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Shiawassee Area Transportation Agency (SATA) was created by an agreement dated October 1, 1999, by the cities of Corunna, Durand, Owosso, Perry, and the Shiawassee Regional Education Service District (RES D) pursuant to the provisions of Public Act 7 of 1967 (extra session) as amended.

Under the agreement it was agreed:

1. Pursuant to the provision of the Act, SATA was established for the purpose of providing public transportation services in areas throughout Shiawassee County, including on-demand transportation and transport of public school students needing to reach community sites as part of their educational program.
2. A party to this agreement may withdraw from SATA after having provided written notice to the remaining parties to this agreement at least one year prior to the effective date of withdrawal.
3. Additional public agencies may become parties to this agreement upon the adoption of a resolution approved by the governing body of the public agency and with the concurrence of the other public agencies that are parties to this agreement now or in the future. The resolution shall be in the form specified by SATA's board of directors.
4. SATA shall be governed by a board of directors comprised of not more than thirteen members.
  - a. Each of the governing bodies of the cities of Corunna, Durand, Owosso, and Perry and the Shiawassee Regional Education Service District shall appoint two members to the board of directors for three year overlapping terms in accordance with the following schedule:

Corunna representative	term expiring October 1, 2008
Durand representative	term expiring October 1, 2008
Corunna representative	term expiring October 1, 2009
Owosso representative	term expiring October 1, 2009
Perry representative	term expiring October 1, 2009
RES D representative	term expiring October 1, 2009
Durand representative	term expiring October 1, 2010
Owosso representative	term expiring October 1, 2010
Perry representative	term expiring October 1, 2010
RES D representative	term expiring October 1, 2010
Caledonia representative	term expiring October 1, 2011

- b. Any public agency that shall become party to this agreement subsequent to its effective date shall appoint a single member to the board of directors. The board of directors shall determine the duration of the term of each member appointed pursuant to this subparagraph so as to equalize the number of terms expiring in any year. At such time as more than three additional agencies have become parties to this agreement, the board of directors shall establish a schedule of rotating terms to fill the three board of director positions allocated to the additional public agencies.
    - c. Whenever the total number of members appointed pursuant to subparagraphs (a) and (b) shall be an even number, the board of directors shall appoint a member-at-large. As additional public agencies become parties to this agreement and appoint members such that the total number of members appointed by public agencies is an odd number, the service of any member-at-large on the board of directors shall be terminated.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

The accounting policies of Shiawassee Area Transportation Agency conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. SATA applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. SATA has elected not to apply the FASB pronouncements issued after November 30, 1989 to its financial statements. The following is a summary of the significant policies:

1. Basis of Presentation

The accounts of SATA are organized on the basis of a fund, which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. SATA resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges.

2. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

3. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

4. Cash and Cash Equivalents

Cash consists of checking accounts; cash equivalents consist of certificates of deposit with an original maturity of 90 days or less.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**- CONTINUED**

5. Investments

Investment accounts include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

6. Receivables/Due from Other Governmental Units

Receivables/due from other governments consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

7. Inventory

Inventory consists of maintenance and repair parts and is valued on the average cost basis.

8. Capital Assets and Depreciation

Capital assets, which include buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	20 years
Vehicles	4-7 years
Equipment	1-10 years

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as defined in the R&E (Revenue and Expense) Manual and/or as approved by BPT (Bureau of Passenger Transportation).

The eligible depreciation of \$490 includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by BPT.

9. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

10. Comparative Data

Comparative total data for the prior year have been presented in the selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Agency's financial position and operations.

11. Cost Allocations

The Shiawassee Area Transportation Agency allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency.



Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, SATA is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

**Deposits**

There is a custodial credit risk as it related to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As of September 30, 2008, the carrying amount of the Agency's deposits was \$257,799 and the bank balance was \$284,251, of which \$200,000 was covered by federal depository insurance. The remaining balance of \$84,251 was uninsured and uncollateralized. The Agency had \$150 of imprest cash on hand.

As of September 30, 2008, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 105,120	\$ 131,572
Certificates of deposit	<u>152,679</u>	<u>152,679</u>
<b>TOTAL</b>	<b><u>\$ 257,799</u></b>	<b><u>\$ 284,251</u></b>

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

**NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED**

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2008, SATA did not have any investments that would be subject to rating.

Interest rate risk

The Agency has not adopted a policy that indicates how the Agency will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Agency has not adopted a policy that indicates how the Agency will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Agency has not adopted a policy that indicates how the Agency will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2008, was as follows:

	Balance Oct. 1, 2007	Additions	Deletions	Balance Sept. 30, 2008
Capital assets not being depreciated:				
Land	\$ 15,233	\$ -	\$ -	\$ 15,233
Capital assets being depreciated:				
Buildings and improvements	838,428	-	-	838,428
Vehicles	903,353	-	-	903,353
Equipment	<u>47,933</u>	<u>32,309</u>	<u>-</u>	<u>80,242</u>
Total capital assets being depreciated	1,789,714	32,309	-0-	1,822,023
Less accumulated depreciation for:				
Buildings and improvements	( 126,598 )	( 41,921 )	-	( 168,519 )
Vehicles	( 422,876 )	( 143,550 )	-	( 566,426 )
Equipment	<u>( 38,944 )</u>	<u>( 9,359 )</u>	<u>-</u>	<u>( 48,303 )</u>
Total accumulated depreciation	<u>( 588,418 )</u>	<u>( 194,830 )</u>	<u>-0-</u>	<u>( 783,248 )</u>
Net capital assets being depreciated	<u>1,201,296</u>	<u>( 162,521 )</u>	<u>-0-</u>	<u>1,038,775</u>
Net Capital Assets	<u>\$ 1,216,529</u>	<u>\$( 162,521 )</u>	<u>\$ -0-</u>	<u>\$ 1,054,008</u>

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

**NOTE D: COMPENSATED ABSENCES**

Significant details related to the Agency's policy on compensated absences are as follows:

Leave time - less than two year seniority:

Full-time employees with less than two years of seniority shall accrue paid leave time at the rate of 80 hours annually. Part-time employees with less than two years of seniority whose regular work schedules are at least 20 hours per week shall accrue paid leave time at the rate of 40 hours annually. Part-time employees whose regular work schedules are fewer than 20 hours per week shall not earn paid leave time.

Leave time - two or more years of seniority:

Full-time employees with two or more years of seniority shall accrue paid leave time at the rate of 120 hours annually. Part-time employees with two or more years of seniority whose regular work schedules are at least 20 hours per week shall accrue paid leave time at the rate of 60 hours annually.

Leave time accrual:

Leave time shall be accrued on a monthly basis. The rate of accrual shall be calculated by dividing the annual rate of accrual by 12. The maximum amount of leave time that may be accumulated and used for paid leave accrued shall be 200% of the annual rate at which leave time is earned.

Compensation for unused leave time:

Unused leave time in excess of the maximum accumulated shall be paid at the rate of 50% of the employee's regular hourly rate of pay. Said payment shall be made once per year on the last payroll of the fiscal year (September).

**NOTE E: CONTINGENT LIABILITIES**

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

**NOTE F: DEFERRED COMPENSATION PLAN**

Shiawassee Area Transportation Agency offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The assets of the plans are held in trust as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The trust requirement was designed by the Internal Revenue Service to help prevent participants from losing their retirement benefits to the claims of plan Sponsor's creditors. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use.

A trust was created for the plan assets, thereby insulating the assets from SATA's general creditors. SATA's plan administrator, ICMA Retirement Corporation, created the trust and has placed the assets of the plan within the trust. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in SATA's financial statements.

Shiawassee Area Transportation Agency

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

**NOTE G: RISK MANAGEMENT**

The Shiawassee Area Transportation Agency is a member of the Michigan Transit Liability Trust Fund ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the Shiawassee Area Transportation Agency.

The Shiawassee Area Transportation Agency pays an annual retention to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member retentions. Annually, the Agency receives notification from the Pool of retrospective claims adjustments based on the actual claims experience of the Agency and other members of the Pool. These retrospective claims adjustments, determined by the Pool, are accrued annually by the Agency upon notification.

The Agency is exposed to various risks of loss including losses related to the Agency's liability, directors and officer's liability, workers compensation, contents/equipment, and employee dishonesty for which the Agency carries commercial insurance.

**NOTE H: RELATED PARTY TRANSACTIONS**

The various parties to the SATA agreement provide in-kind services to SATA. SATA would have to pay for all services provided by related parties. The value of these services has been recorded as revenue and expenses at their fair value as detailed below:

	<u>2008</u>	<u>2007</u>
City of Owosso - payroll processing and personnel consulting	\$ 2,597	\$ 1,881
Shiawassee Regional Education Service District (RESA) management and accounting assistance	<u>31,971</u>	<u>32,333</u>
	<u>\$ 34,568</u>	<u>\$ 34,214</u>

**NOTE I: COMPLIANCE REQUIREMENTS**

Nonfinancial data - The methodology used for compiling mileage on OAR Schedules (Nonurban, JARC, and Specialized Services) is an adequate and reliable methodology for recording vehicle mileage.

Depreciation - The depreciation charges includes \$490 of eligible depreciation, assets purchased with local funds. Therefore, all depreciation charges are ineligible for reimbursements and have been excluded from the computation of eligible costs to be reimbursed with State Formula Funds, except for those noted previously.

Capital money - No capital money was used to pay for operating expenses and none are included in total expenses to be reimbursed with State Formula Funds.

Ineligible expenses - Ineligible expenses are classified appropriately according to the definition in the local public transit revenue and expense manual. Expenses associated with generating local revenues (i.e., auxiliary transportation revenue and nontransportation revenue) have been subtracted out as ineligible.

Cost allocation plans - The Shiawassee Area Transportation Agency has two cost allocation plans where the methodology has been approved by the BPT. The cost allocation plans are for administrative costs. These cost allocation plans were adhered to in the preparation of the financial statements.

## OTHER SUPPLEMENTARY INFORMATION

Shiawassee Area Transportation Agency

SCHEDULE OF LOCAL REVENUES

Year Ended September 30, 2008

Demand response - farebox (regular)	\$ 95,964
Demand response - farebox (JARC)	2,431
Contract fares	163,387
Advertising	4,079
Tax levy	25,960
Local operating assistance	13,902
In-kind services	34,568
Interest	<u>2,196</u>
TOTAL LOCAL REVENUES	<u>\$ 342,487</u>

Shiawassee Area Transportation Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2008

Federal and State Grantor/Pass - Through Grantor/Program Title	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Restated Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Passed through Michigan Department of Transportation								
Federal Transit - Capital Investment Grants Section 5309 (80/20)	20.500	MI-03-0232/2002-086/Z22	\$ 77,135	\$ -	\$ -	\$ -	\$ 70,407	\$ 6,728
Formula Grants for Other than Urbanized Areas	20.509							
Capital Grant - Section 5311 (80/20)		MI-18-X036/2002-0086/Z14	468,750	18,459	14,767	3,692	383,676	66,615
Capital Grant - Section 5311 (80/20)		MI-85-X001/2007-0290/Z4	12,000	11,079	11,079	-	-	921
Operating Assistance - Section 5311 FY 06		MI-03-0232/2002-0086/Z21/R1	136,220	-	-	-	128,938	7,282
Operating Assistance - Section 5311 FY 07		MI-18-X041/2007-0290/Z3/R1	135,405	-	-	-	126,413	8,992
Operating Assistance - Section 5311 FY 08		MI-18-X042/2007-0290/Z6	145,219	132,387	132,387	-	-	12,832
Rural Transportation Assistance Program		N/A	3,500	3,500	3,500	-	-	-0-
			901,094	165,425	161,733	3,692	639,027	96,642
Job Access Reverse Commute (50/50)	20.516	MI-37-X024/2007-0290/Z2	20,084	-	-	-	20,071	13
Job Access		MI-37-X026/2007-0290/Z7/R1						
Service Operations (50/50)			22,092	22,092	11,046	11,046	-	-0-
Capital/Mobility Management (80/20)			37,500	12,621	10,097	2,524	-	24,879
			79,676	34,713	21,143	13,570	20,071	24,892
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51 Nonurban	N/A							
Operating Assistance - FY06		N/A	314,544	-	-	-	297,477	17,067
Operating Assistance - FY07		N/A	307,615	-	-	-	289,419	18,196
Operating Assistance - FY08		N/A	328,111	301,185	-	301,185	-	26,926
			950,270	301,185	-0-	301,185	586,896	62,189
Specialized Services	N/A	2007-0290/Z5	78,374	78,374	-	78,374	-	-0-
Specialized Services	N/A	2007-0290/Z1	78,374	7,668	-	7,668	70,706	-0-
TOTALS			\$2,164,923	\$ 587,365	\$ 182,876	\$ 404,489 <sup>(a)</sup>	\$1,387,107	\$ 190,451

(a) The total State revenue on the Statement of Revenues, Expenditures, and Changes in Fund Net Assets is \$396,596. The total State expenditures on the Schedule of Expenditures of Federal and State Awards is \$404,489. The difference is \$7,893; \$225 is due to State operating assistance from prior years reconciliations being received in the current year and \$7,668 is due to revenue for specialized services being recorded in the prior year (rather than deferred) and expenditures being recorded in the current year. Differences are considered immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Shiawassee Area Transportation Agency

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Year Ended September 30, 2008

	Nonurban	JARC (MI-37-X026 2007-0290/Z7/R1)	Specialized Services (2007-0290/Z5)	Specialized Services (2007-0290/Z1)	Total
Labor	\$ 461,021	\$ 11,518	\$ -	\$ -	\$ 472,539
Payroll taxes and fringe benefits	107,576	2,583	-	-	110,159
Professional services	80,159	2,090	-	-	82,249
Materials and supplies	164,898	4,524	-	-	169,422
Utilities	14,140	295	-	-	14,435
Insurance	34,534	946	-	-	35,480
Purchased service	-	-	78,374	7,668	86,042
Miscellaneous expenses	8,971	211	-	-	9,182
Depreciation	194,830	-	-	-	194,830
<b>TOTAL EXPENSES</b>	<b>\$ 1,066,129</b>	<b>\$ 22,167</b>	<b>\$ 78,374</b>	<b>\$ 7,668</b>	<b>\$ 1,174,338</b>



Shiawassee Area Transportation Agency

OAR SCHEDULE 4R  
NONURBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Amount</u>
401	Farebox revenue	
40100	Passenger fares	\$ 95,964
40200	Contract fares	159,853
406	Auxiliary transportation revenue	
40615	Advertising	4,079
408	Local revenue	
40800	Tax levy	25,960
409	Local revenue	
40910	Local operating assistance	48,470
411	State formula and contracts	
41101	State operating assistance	301,185
413	Federal contracts	
41301	Section 5311	132,387
41398	RTAP	3,445
414	Other revenue	
41400	Interest income	2,196
	TOTAL NONURBAN SERVICE REVENUE	<u>\$ 773,539</u>

Shiawassee Area Transportation Agency

OAR SCHEDULE 4E  
NONURBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2008

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operator's salaries and wages	\$ 301,548	\$ -	\$ -	\$ 301,548
50102	Other salaries and wages	-	35,202	49,036	84,238
50103	Dispatchers' salaries and wages	75,235	-	-	75,235
502	Fringe benefits				
50200	Payroll taxes and fringe benefits	75,232	12,364	19,980	107,576
503	Services				
50302	Advertising fees	-	-	6,895	6,895
50305	Audit cost	-	-	5,734	5,734
50399	Other services	19,195	22,793	25,542	67,530
504	Materials and supplies				
50401	Fuel and lubricants	131,503	-	-	131,503
50402	Tires and tubes	8,283	-	-	8,283
50499	Other materials and supplies	2,178	20,984	1,950	25,112
505	Utilities				
50500	Utilities	-	-	14,140	14,140
506	Insurance				
50603	Liability insurance	31,938	-	-	31,938
50699	Other insurance	-	-	2,596	2,596
509	Miscellaneous expenses				
50902	Travel, Meetings & Training	2,329	317	4,920	7,566
50903	Association Dues & Subscriptions	-	-	1,405	1,405
513	Depreciation				
51300	Depreciation	-	-	194,830	194,830
550	Less ineligible expenses				
55007	Ineligible depreciation	-	-	194,340	194,340
55008	Ineligible contributed services	-	-	34,568	34,568
560	Less ineligible expenses				
56002	Ineligible expenses associated with advertising revenue	-	-	623	623
574	Ineligible expenses				
57402	Ineligible RTAP	-	-	3,445	3,445
Total expenses					1,066,129
Total ineligible expenses					<u>232,976</u>
Total eligible expenses					<u>\$ 833,153</u>

Shiawassee Area Transportation Agency

OAR SCHEDULE 4N  
NONURBAN REGULAR SERVICE NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle miles (1)	387,106	-	-	387,106

(1) The methodology used for compiling vehicle miles has been reviewed and found to be an adequate and reliable method for recording vehicle miles.

Shiawassee Area Transportation Agency

OAR SCHEDULE 4R  
JOB ACCESS REVENUE REPORT

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Amount</u>
401	Farebox revenue	
40100	Passenger fares	\$ 2,431
40200	Contract fares	3,534
411	State contracts	
41199	Job Access	13,570
413	Federal contracts	
41399	Job Access	21,143
41398	RTAP	55
		<hr/>
	TOTAL JOB ACCESS REVENUE	<u>\$ 40,733</u>

Shiawassee Area Transportation Agency

OAR SCHEDULE 4E  
JOB ACCESS EXPENSE REPORT

Year Ended September 30, 2008

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operator's salaries and wages	\$ 7,721	\$ -	\$ -	\$ 7,721
50102	Other salaries and wages	-	696	1,244	1,940
50103	Dispatchers' salaries and wages	1,857	-	-	1,857
502	Fringe benefits				
50200	Payroll taxes and fringe benefits	1,771	317	495	2,583
503	Services				
50302	Advertising fees	-	-	203	203
50305	Audit cost	-	-	166	166
50399	Other services	278	551	892	1,721
504	Materials and supplies				
50401	Fuel and lubricants	3,656	-	-	3,656
50402	Tires and tubes	210	-	-	210
50499	Other materials and supplies	59	551	48	658
505	Utilities				
50500	Utilities	-	-	295	295
506	Insurance				
50603	Liability insurance	874	-	-	874
50699	Other insurance	-	-	72	72
509	Miscellaneous expenses				
50902	Travel, meetings & training	55	8	113	176
50903	Association dues & subscriptions	-	-	35	35
560	Less ineligible expenses				
56002	Ineligible expenses associated with advertising revenue	-	-	8	8
574	Ineligible expenses				
57402	Ineligible RTAP	-	-	55	55
Total expenses					22,167
Total ineligible expenses					63
Total eligible expenses					<u>\$ 22,104</u>

Shiawassee Area Transportation Agency

OAR SCHEDULE 4N  
JOB ACCESS NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle miles (1)	9,027	162	3,344	12,533

(1) The methodology used for compiling vehicle miles was reviewed and found to be an adequate and reliable method for recording vehicle miles.

Shiawassee Area Transportation Agency

OAR SCHEDULE 4R  
SPECIALIZED SERVICES REVENUE REPORT

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Amount</u>
411	State contracts	
41199	Other State contracts and reimbursements	\$ 78,374
	TOTAL SPECIALIZED SERVICES REVENUE	<u>\$ 78,374</u>

Shiawassee Area Transportation Agency

OAR SCHEDULE 4E  
SPECIALIZED SERVICES EXPENSE REPORT

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Operations</u>	<u>Maintenance</u>	<u>Administrative</u>	<u>Total</u>
508	Purchased transportation service				
50800	Purchased transportation service	\$ 86,042	\$ -	\$ -	\$ 86,042
				Total expenses	86,042
				Total ineligible expenses	-
				Total eligible expenses	<u>\$ 86,042</u>



Shiawassee Area Transportation Agency

OAR SCHEDULE 4N  
SPECIALIZED SERVICES NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Agency</u>	<u>Volunteer</u>	<u>Total</u>
611	Vehicle miles (1)	37,984	-	37,984

(1) The methodology used for compiling vehicle miles was reviewed and found to be an adequate and reliable method for recording vehicle miles.

Shiawassee Area Transportation Agency  
OPERATING ASSISTANCE CALCULATION  
Year Ended September 30, 2008

	<u>Nonurban</u>
Total expenses	\$ 1,066,129
Less ineligible expenses	
RTAP	3,445
Contributed services	34,568
Advertising revenue	623
Depreciation	<u>194,340</u>
Total ineligible expenses per R&E manual	<u>232,976</u>
TOTAL STATE ELIGIBLE EXPENSES	<u><u>\$ 833,153</u></u>
 Eligible expenses for State reimbursement	 \$ 833,153
x Reimbursement percentage	<u>0.3615</u>
 State operating assistance (not to exceed \$328,111)	 <u><u>\$ 301,185</u></u>
 Less additional Federal ineligible expenses	
Audit costs	<u>\$ 5,734</u>
Eligible expenses for Federal reimbursement	827,419
x Reimbursement percentage	<u>0.1600</u>
 Federal section 5311 operating assistance (not to exceed \$145,219)	 <u><u>\$ 132,387</u></u>

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Shiawassee Area Transportation Agency  
Owosso, Michigan

We have audited the basic financial statements of the Shiawassee Area Transportation Agency as of and for the year ended September 30, 2008, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated January 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, over financial reporting including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

2008-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Condition: Material journal entries were proposed by the auditors to properly account for items such as accounts receivable and due from other governmental units. These misstatements were not detected by the Agency's internal control over financial reporting.

## 2008-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Agency's internal controls.

Recommendation: We recommend that the Agency take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: We intend to ensure that material journal entries are not necessary by the time of the FY 2009 audit.

## 2007-5 FRAUD RISK MANAGEMENT PROGRAM

Criteria: A fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Condition: During the course of our audit it was noted that in the Agency has not adopted a formal anti-fraud program. Anti-fraud programs should be part of the Agency's internal controls to allow employees avenues to communicate fraud to responsible officials of the Agency. This issue was noted and reported in our audit comments last year.

Effect: The Agency's internal controls over financial reporting are not as strong as they could be as there is an absence of an internal process to report deficiencies in internal control to management on a timely basis.

Recommendation: It is recommended that the Agency adopt a formal fraud risk management program.

Corrective Action Response: We intend to adopt a fraud risk management policy which addresses these concerns before September 30, 2009.

## 2007-6 CONFLICT OF INTEREST POLICY

Criteria: A conflict of interest policy will clarify the Agency's position on ethical behavior and communicate that position to employees and board members.

Condition: During the course of our audit it was noted that the Agency has not adopted a formal conflict of interest policy. A policy on conflict of interest should be a part of the Agency's internal controls to communicate to employees the Agency's position on ethical behavior. This issue was noted and reported in our audit comments last year.

Effect: The Agency's internal control design lacks a formal position on ethical behavior.

Recommendation: It is recommended that the Agency adopt a formal conflict of interest policy.

Corrective Action Response: We intend to adopt a conflict of interest policy which addresses these concerns before September 30, 2009.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described above as 2008-1 is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Shiawassee Area Transportation Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

### 2007-4 INVESTMENT POLICY

Criteria: GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Agency's ability to provide services and meet its obligations as they become due.

Condition: During the course of our audit and through discussions with administration, it was noted that the Agency has not adopted or amended an investment policy to address the various types of investment risk as described in GASB Statement No. 40. This issue was noted and reported in our audit comments last year.

Effect: There is no policy established to inform users of deposit and investment risks that may affect the Agency's ability to provide services. As a result, the notes to the Agency's financial statements state that no such policy exists.

Recommendation: It is recommended that the board adopt an investment policy to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, as applicable.

Corrective action response: We intend to adopt an investment policy which addresses these concerns before September 30, 2009.

### 2007-9 PUBLIC TRANSPORTATION MANAGEMENT SYSTEM (PTMS) REPORTS

Criteria: The filing of the Agency's PTMS reports with the Bureau of Passenger Transportation should accurately reflect the financial statements of the Agency.

Condition: During our review of the Agency's PTMS reports, it was noted that ineligible expenses reported contradicted the Agency's revenue and/or expenses. A similar issue was noted and reported in our audit comments last year.

Effect: The Agency's internal controls over financial reporting were not able to detect contradictions in the Agency's PTMS reports. These noted contradictions within the PTMS reports were immaterial to the financial statements as a whole and therefore were not adjusted during the audit process.

Recommendation: It is recommended that the Agency accurately complete the PTMS reports to be filed with the Bureau of Passenger Transportation.

Corrective Action Response: We intend to consider contracting with a vendor to assist in the preparation of PTMS reports prior to our FY 2009 audit.

This report is intended for the information of management and the Board of Directors of the Shiawassee Area Transportation Agency, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

January 22, 2009